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IN THIS ISSUE:

Japan's FY 1986 Growth Outlook Appears Out Of Reach 1

Effects Of The Yen's Appreciation On Japanese Export Prices 4

OECD Nations Agree To Limit Mixed Export Credits 5

Committees Continue Trade Bill Markup 6

Wires Crossed On International Telecommunications 7

Notes: Fish Products; American Express-Nippon Life; Japan-EC Car Export Restraints 9

Clarifications 10

Japan's FY 1986 Growth Outlook Appears Out Of Reach

Despite a plunge in consumer spending, Japan's inflation-adjusted gross national product increased at a 3.2 percent annual rate in the October-December 1986 quarter, up from a revised 3 percent in the July-September period (see Table 1). The fourth-quarter figure raised real growth for calendar 1986 to 2.5 percent, still the lowest level registered since 1974 in the wake of the first oil shock. Even so, Japan's economic performance last year matched that of the United States and the European Community (see Table 2).

Table 1: Japan's Real Gross National Product at Constant (1980) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	1985	1986	January-March 1986	April-June 1986	July-September 1986	October-December 1986
Gross National Product	Y291,207.1 (4.7%)	Y298,346.6 (2.5%)	Y294,483.4 (-1.7%)	Y297,230.1 (3.8%)	Y299,438.0 (3.0%)	Y301,772.9 (3.2%)
Personal Consumption Spending	162,103.3 (2.6%)	166,478.9 (2.7%)	164,123.7 (1.6%)	166,134.2 (5.0%)	168,282.2 (5.3%)	167,131.1 (-2.7%)
Private Residential Construction	14,002.1 (2.6%)	15,418.1 (10.1%)	14,340.6 (6.3%)	14,808.5 (13.7%)	15,851.9 (31.3%)	16,627.0 (21.0%)
Private Fixed Nonresidential Investment	52,224.6 (12.3%)	55,578.4 (6.4%)	54,983.4 (1.3%)	55,204.3 (1.6%)	55,471.9 (2.0%)	56,562.6 (8.1%)
Change in Business Inventories	2,273.1 (62.1%)	1,136.5 (-50.0%)	1,726.5 (-60.1%)	639.5 (-98.1%)	920.4 (329.1%)	1,256.9 (247.8%)
Government Current Expenditures	27,072.9 (2.0%)	28,868.3 (6.6%)	27,606.7 (3.5%)	27,719.2 (1.6%)	28,058.0 (5.0%)	32,106.4 (71.5%)
Government Fixed Investment	20,935.6 (-6.6%)	21,858.9 (4.4%)	21,022.4 (1.2%)	21,785.4 (15.3%)	22,180.2 (7.4%)	22,363.0 (3.3%)
Change in Government Inventories	302.2 (*)	808.5 (*)	39.6 (*)	3,251.8 (*)	1,795.1 (*)	-1,850.1 (*)
Net External Sector	12,293.1 (29.8%)	8,198.9 (-33.3%)	10,640.6 (-42.8%)	7,687.2 (-72.8%)	6,878.0 (-35.9%)	7,576.0 (47.2%)
Exports of Goods and Services and Factor Income Received	55,133.4 (5.3%)	52,471.5 (-4.8%)	52,208.9 (-12.4%)	53,044.1 (6.6%)	52,640.0 (-3.0%)	51,998.3 (-4.8%)
Imports of Goods and Services and Factor Income Paid	42,840.3 (-0.1%)	44,272.6 (3.3%)	41,568.3 (-1.6%)	45,356.9 (41.8%)	45,762.0 (3.6%)	44,422.3 (-11.2%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

Table 2: Real Economic Growth Rates in Selected Countries

Year	United States	Japan	West Germany	Great Britain	European Community	Republic of Korea
1982	-2.5%	3.1%	-1.0%	0.8%	0.5%	5.4%
1983	3.6	3.2	1.8	3.8	1.4	11.9
1984	6.4	5.1	3.0	1.8	2.3	8.4
1985	2.7	4.7	2.5	3.8	2.4	5.4
1986	2.5	2.5	2.4	2.6	2.5*	12.2*
1987**	3.2	3.5	2.5	3.0	2.3	8.0

*Estimated.
**Government forecasts. The 3.5 percent figure for Japan is Tokyo's outlook for FY 1987.

Source: Nihon Keizai Shimbun, March 14, 1987

External demand was a drag on the economy for the first time in seven years. Without the decline in net exports, real growth would have reached 3.9 percent. A 10.1 percent jump in housing investment, though, boosted the economy. Encouraged by low interest rates and government incentives, housing starts in 1986 topped 1.36 million, the highest since 1979. Business investment, though slowed by the drop in manufacturing firms' profits, also remained strong.

Growth in the fourth quarter was slowed by a 2.7 percent contraction in consumer spending, the first decline in 12 years, which officials blamed on the small bonuses paid in December. Although exports declined for the second consecutive quarter, imports dropped even more. As a result, external demand accounted for 0.2 percentage point of the 0.8 percent quarterly rise in GNP.

The results for the October-December quarter make it unlikely that the economy will attain the government's revised 3 percent real growth outlook for fiscal year 1986 (April 1, 1986-March 31, 1987). That would require the economy to expand at a 10.8 percent annual rate during the first three months of 1987.

The latest economic statistics brought renewed calls for government policies to boost the economy. Noboru Gotoh, president of the Japan Chamber of Commerce and Industry, urged the prime minister last week to increase public works spending. The Liberal Democratic Party and four opposition parties did agree on a Y7.9 trillion ($52.7 billion at Y150=$1.00) provisional budget, including Y1.8 trillion ($12 billion) on public works, to cover the first 50 days of FY 1987, beginning April 1. The stopgap measure is necessary because the opposition parties' stiff resistance to the proposed 5 percent value-added tax has delayed passage of next year's budget.

Tokyo continues to work on an economic stimulus package to help achieve 3.5 percent real growth in fiscal 1987. Economic Planning Agency director

Tetsuo Kondo said the program will be announced before the annual economic summit scheduled for June 8-10 in Venice. Mr. Kondo also urged prosperous industries to grant significant wage increases to workers in order to boost consumer spending. Most analysts expect this year's wage hikes to average less than 4 percent, down from last year's 4.5 percent.

Randall S. Jones

Effect Of The Yen's Appreciation On Japanese Export Prices

Although Japan's trade surplus jumped to a record $82.7 billion in 1986, the appreciation of the yen since February 1985 has started to shift trade flows in the expected direction. Export volume fell last year, the first decline since the 1982 recession.

The decline in export volume has been tempered by the fact that the prices of many goods do not fully reflect the currency changes that have taken place. At least for the short run, many producers have chosen to cut costs and sacrifice profits rather than risk losing market share by raising prices the full amount of the yen's appreciation. These cost-cutting efforts have been aided by less expensive industrial inputs, particularly oil, while record or near-record corporate profits in 1984 and 1985 left firms in good shape to fight for market share.

As the table shows, exporters passed on only 54.6 percent of the yen's 47.1 percent rise against the dollar in the form of price increases in the 15 months from September 1985, substantially less than the two-thirds hike in the February-November 1978 period when the yen appreciated 30.6 percent. One reason for this is that with relatively low inflation, price increases are more likely to reduce market share. Inflation in the United States was only 1.9 percent last year (3.9 percent excluding energy), compared to 7.7 percent in 1978.

Of the 12 industries for which data are available in both periods, 10 passed on a smaller percentage of the yen's appreciation in 1985-86 than in 1978. Many of these industries face increased competition, particularly from the newly industrialized countries of Asia. Steelmakers in 1978, for example passed on 80.2 percent of the yen's appreciation. For 1985-86, in contrast, that figure was only 7.7 percent.

The considerable variation by industry also reflects the nature of the good produced. The amount of the yen's appreciation passed on by exporters of basic industrial intermediates, such as steel and nonferrous metals, is especially low. In some finished products, the reputation of well-known Japanese brand names has permitted larger price increases. Producers of cameras, copiers and video cassette recorders have been able to pass on a relatively high percentage of the yen's appreciation.

Randall S. Jones

Percent of Yen's Appreciation Passed on in Export Prices*

Industry	February-November 1978	September 1985-December 1986
Clothing	79.6%	45.7%
Organic chemicals	25.5	18.2
Inorganic chemicals	n.a.	18.8
Steel	80.2	7.7
Nonferrous metals	71.2	16.7
Metal products	83.1	74.4
Nonelectric machinery	59.2	57.4
Data processing equipment	n.a.	42.6
Electric machinery	74.5	68.7
Color television sets	57.3	65.1
Radio receivers	69.3	45.7
Other telecommunications equipment	n.a.	45.0
Semiconductors	n.a.	38.3
Integrated circuits	n.a.	71.2
Motor vehicles	89.3	63.2
Motorcycles	83.8	78.4
Cameras	67.0	85.5
Copiers	n.a.	73.0
Video cassette recorders	n.a.	71.1
Total Exports	66.3	54.6

*The yen appreciated 30.6 percent against the dollar during the February-November 1978 period and 47.1 percent between September 1985 and December 1986 based on the conversion rates used for customs clearance.

Source: Calculated from Japan Tariff Association, The Summary Report: Trade of Japan

OECD Nations Agree to Limit Mixed Export Credits

The Reagan administration has declared victory in its uphill battle to persuade other industrial nations to stop offering export financing packages that blend foreign aid with normal export credits to win commercial contracts in developing countries. On March 17 the Organization for Economic Cooperation and Development announced that the 22 participants in its "gentleman's agreement" on government-backed export credits had reached an accord to tighten the rules governing mixed or tied-aid export credits. By hiking the cost of using foreign aid funds to promote exports, the changes are expected to control what the White House considers an unfair international trade practice without reducing the flow of true development assistance to the poorest Third World countries.

The Reagan administration has been fighting the use of mixed export credits for commercial purposes by France and other governments almost since the day it took office, claiming that this type of financing unfairly costs American exporters of capital goods overseas sales. After winning agreement